

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Community District Library	County Shiawassee
Audit Date 6/30/05	Opinion Date 8/31/05	Date Accountant Report Submitted to State: 12/1/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

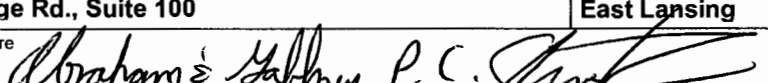
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Rd., Suite 100		City East Lansing	State MI
Accountant Signature 		ZIP 48823	Date 12/1/05

**Community District Library
Corunna, Michigan**

FINANCIAL STATEMENTS

June 30, 2005

Community District Library

Corunna, Michigan

BOARD OF TRUSTEES

June 30, 2005

Ms. Carol Chrisinske	Chairperson
Ms. Kathy Pavlica	Vice-Chair
Ms. Linda Sedlock	Treasurer
Ms. Patricia Yott	Secretary
Ms. Pat Borst	Member
Ms. Geraldine Hagadon	Member
Ms. Debra Newman	Member

Community District Library

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Principals

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ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Community District Library
Corunna, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Community District Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Community District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Community District Library as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 31, 2005

New Financial Reporting

Starting with fiscal year ended June 30, 2005, the first year the library was formally in existence, the Community District Library, (the "Library") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets were managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB 34.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$498,795 (net assets) at the government-wide level.
- The Library's total net assets increased by \$498,795, as a result of current year activity at the government-wide level. This was mainly due to the assets transferred to the Library at the inception of the District Library in the current year.
- Unrestricted Fund Balance Fund increased as a result of revenues exceeding expenditures in the current year at the fund level.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Community District Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Community District Library in more detail than the government-wide financial statements by providing information about the Library's most significant fund.

The Library as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 294,666
Noncurrent assets	<u>209,601</u>
Total assets	504,267
Liabilities	
Current liabilities	<u>5,472</u>
Net Assets	
Invested in capital assets	209,601
Unrestricted	<u>289,194</u>
Total net assets	<u>\$ 498,795</u>

The Library's total net assets were \$498,795 at June 30, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$289,194 at the end of the fiscal year. The net assets invested in capital assets were at \$209,601. The management's discussion and analysis will present a condensed comparative statement of net assets next year when there are two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenues	
Program revenue:	
Charges for services	\$ 3,747
Operating grants and contributions	156,974
Capital grants and contributions	236,025
General revenue:	
Property taxes	264,750
State aid - unrestricted	22,542
Penal fines	103,885
Interest	2,988
Miscellaneous	<u>3,439</u>
Total revenues	794,350
Program Expenses	
Recreation and cultural	<u>295,555</u>
Change in Net Assets	<u>\$ 498,795</u>

Community District Library

Management's Discussion and Analysis

Governmental Activities

The Library's governmental revenues totaled \$794,350 with the greatest revenue source being property taxes levied by the district. Property taxes make up approximately 33.3 percent of total governmental revenue.

The Library incurred expenses of \$295,555 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

The Library's Fund

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the specific fund, not the Community District Library as a whole. The Community District Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2005 was the General Fund.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$295,555 for the fiscal year.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Library Board made necessary budget adjustments to fund unanticipated expenditures during the year. At the beginning of the year the millage had not been approved by the voters yet. When it was, tax revenue was amended in the budget. There were only minor other revenue and expenditure amendments done during the current year.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$209,601 invested in equipment, furniture, and books (net of accumulated depreciation). The main capital assets added were \$4,993 for doors at the New Lothrop branch and \$23,648 in books, etc. which were added to the collection.

No debt was issued during the fiscal year. The Library had no indebtedness at June 30, 2005.

Next Year's Millage Rate

A four-year, .5 operating millage was approved August, 3, 2004. For fiscal year 2004/2005 the estimated revenue was \$264,750. The Shiawassee County Equalization Department projects \$274,124 in revenue for fiscal year 2005/2006. Actual revenue may vary due to tax capture by local Downtown Development Authorities.

At its June 22, 2005 meeting the Library Board of Trustees approved fiscal year 2005/2006 revenue estimates of \$374,589 and expenditures of \$364,347.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Betsy Hull, Library Director, 231 N. Shiawassee Street, Corunna, MI 48817, (989)743-3287, cdl-director@michonline.net.

BASIC FINANCIAL STATEMENTS



Community District Library
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 240,117
Accounts receivable	261
Due from other governmental units	48,926
Prepays	<u>5,362</u>
Total current assets	294,666
Noncurrent assets	
Capital assets, net	<u>209,601</u>
TOTAL ASSETS	504,267
LIABILITIES	
Current liabilities	
Accounts payable	1,785
Other accrued liabilities	<u>3,687</u>
Total current liabilities	5,472
NET ASSETS	
Invested in capital assets	209,601
Unrestricted	<u>289,194</u>
TOTAL NET ASSETS	<u><u>\$ 498,795</u></u>

See accompanying notes to financial statements.

Community District Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Recreation and cultural	<u>\$295,555</u>	<u>\$ 3,747</u>	<u>\$ 156,974</u>	<u>\$ 236,025</u>	\$ 101,191
General revenues:					
					264,750
					22,542
					103,885
					2,988
					<u>3,439</u>
					<u>397,604</u>
					498,795
					<u>-</u>
					<u>\$ 498,795</u>

See accompanying notes to financial statements.

Community District Library

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	General
ASSETS	
Cash and cash equivalents	\$ 240,117
Accounts receivable	261
Due from other governmental units	48,926
Prepays	5,362
	<hr/>
TOTAL ASSETS	\$ 294,666
	<hr/>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 1,785
Accrued wages	3,012
Accrued liabilities	675
	<hr/>
TOTAL LIABILITIES	5,472
	<hr/>
FUND BALANCE	
Reserved for prepaids	5,362
Unreserved	
Undesignated, reported in:	
General fund	283,832
	<hr/>
TOTAL FUND BALANCE	289,194
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 294,666
	<hr/>

See accompanying notes to financial statements.

Community District Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance - governmental funds \$ 289,194

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 290,892
Accumulated depreciation is	<u>(81,291)</u>

Capital assets, net	<u>209,601</u>
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Net assets of governmental activities	<u><u>\$ 498,795</u></u>
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See accompanying notes to financial statements.

Community District Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	<u>General</u>
REVENUES	
Taxes	\$ 264,750
Intergovernmental	179,516
Fines and forfeits	103,885
Charges for services	3,747
Interest and rents	2,988
Other	<u>3,439</u>
TOTAL REVENUES	558,325
EXPENDITURES	
Current	
Recreation and cultural	240,490
Capital outlay	<u>28,641</u>
TOTAL EXPENDITURES	<u>269,131</u>
EXCESS OF REVENUES OVER EXPENDITURES	289,194
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ 289,194</u></u>

See accompanying notes to financial statements.

Community District Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds **\$ 289,194**

Amounts reported for governmental activities in the statement of activities are different because:

The net effect of capital contribution transactions at the inception of the library involved capital assets resulting in an increase to net assets 236,025

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 28,641
Depreciation expense	<u>(55,065)</u>
Excess of depreciation expense over capital outlay	<u>(26,424)</u>

Change in net assets of governmental activities **\$ 498,795**

See accompanying notes to financial statements.

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Library is a District Library formed to pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the City of Corunna and the townships of Burns, Caledonia, Hazleton, Perry, Shiaw, and Venice. The Library has a separate tax millage and governing board. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The local municipalities within the Libraries boundaries collect and distribute property taxes that are levied by the Library. The Library has no stockholders and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board which is comprised of seven (7) members appointed in accordance with the provisions of the District Library Establishment Act (MCL 397.171).

The Community District Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs for the community. The Library's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Community District Library. The Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources. General fund activities are financed by revenue from general property taxes, penal fines, and other sources.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted and as amended by the Library Board during the year.

Community District Library
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of a money market checking account.

7. Receivables

Receivables consist of penal fines, interest, and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year the City and Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Shiawassee County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The voters approved a levy of .5 mills for general operating. For the year ended June 30, 2005, the Library levied .5 mills for operations.

9. Capital Assets

Capital assets include land, buildings, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Collections	5 years
Equipment and furniture	3 - 20 years

10. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the General Fund for a payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Community District Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Community District Library.

As of June 30, 2005, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Money market checking	<u>\$ 239,902</u>	<u>\$ 248,264</u>

As of June 30, 2005, the Library's deposits were insured by the FDIC in the amount of \$100,000 and the amount of \$148,264 was uninsured and uncollateralized. The cash and cash equivalents captions in the basic financial statements includes \$215 in imprest cash.

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Community District Library
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Library has not adopted a policy that indicates how the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2005</u>
Governmental Activities				
Equipment and furniture	\$ 1	\$ 4,993	\$ -	\$ 4,994
Collections	<u>262,250</u>	<u>23,648</u>	<u>-</u>	<u>285,898</u>
Totals at historical cost	262,251	28,641	-0-	290,892
Less accumulated depreciation for:				
Equipment and furniture	(1)	(250)	-	(251)
Collections	<u>(26,225)</u>	<u>(54,815)</u>	<u>-</u>	<u>(81,040)</u>
Total accumulated depreciation	<u>(26,226)</u>	<u>(55,065)</u>	<u>-0-</u>	<u>(81,291)</u>
Capital assets, net	<u>\$ 236,025</u>	<u>\$(26,424)</u>	<u>\$ -0-</u>	<u>\$ 209,601</u>

Depreciation expense was wholly allocated to the lone governmental function (recreation and cultural) in the amount of current depreciation expense of \$55,065.

NOTE D: NONCANCELABLE OPERATING LEASE OBLIGATIONS

Community District Library has entered into a four-year, noncancelable long-term lease with Solomon Investments for the Administration offices located in Corunna. Rent expense related to this lease was \$8,880 for the year ended June 30, 2005. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	
2006	\$ 8,415
2007	9,180
2008	9,180
2009	<u>1,530</u>
TOTAL PAYMENTS	<u>\$ 28,305</u>

Community District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE E: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules presented as required supplementary information, the Library's budgeted expenditures in the General Fund have been shown at the account level. The approved budgets of the Library have been adopted at the account level.

During the year ended June 30, 2005, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Recreation and cultural			
Salaries and wages	\$ 137,700	\$ 142,490	\$ 4,790
Printing and publishing	2,500	2,566	66
Communications	2,909	3,347	438
Transportation and training	5,000	5,950	950

NOTE F: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or have been legally segregated for a specific future use.

The following is the fund balance reserve as of June 30, 2005:

General Fund	
Reserved for prepaids	<u>\$ 5,362</u>

NOTE G: RISK MANAGEMENT

The Library is exposed to various risks of loss for liability, property, employee dishonesty, workers' compensation, and employer's liability for which the Library carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

Community District Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ -	\$ 264,750	\$ 264,750	\$ -0-
Intergovernmental				
State	20,446	20,446	22,542	2,096
Local	43,400	43,900	156,974	113,074
Library fees and fines	2,600	2,300	3,747	1,447
Interest	100	1,000	2,988	1,988
Penal fines	64,478	64,478	103,885	39,407
Other	-	600	3,439	2,839
TOTAL REVENUES	131,024	397,474	558,325	160,851
EXPENDITURES				
Recreation and cultural				
Salaries and wages	156,500	137,700	142,490	(4,790)
Fringe benefits	34,524	21,619	20,323	1,296
Supplies	5,500	14,200	13,620	580
Occupancy	-	8,880	8,880	-0-
Contracted services	29,793	41,540	39,252	2,288
Printing and publishing	1,500	2,500	2,566	(66)
Insurance	4,000	8,000	2,297	5,703
Communications	2,000	2,909	3,347	(438)
Utilities	1,500	1,500	1,475	25
Memberships and dues	1,000	700	290	410
Transportation and training	5,000	5,000	5,950	(950)
Repairs and maintenance	1,000	1,000	-	1,000
Miscellaneous	500	50	-	50
Total recreation and cultural	242,817	245,598	240,490	5,108
Capital outlay				
Books, other collections, and memberships	20,000	25,000	23,648	1,352
Equipment	3,000	5,000	4,993	7
Total capital outlay	23,000	30,000	28,641	1,359
TOTAL EXPENDITURES	265,817	275,598	269,131	6,467
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(134,793)	121,876	289,194	167,318
Fund balance, beginning of year	-	-	-	-0-
Fund balance, end of year	<u>\$(134,793)</u>	<u>\$ 121,876</u>	<u>\$ 289,194</u>	<u>\$ 167,318</u>

Principals

Dale J. Abraham, CPA
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MANAGEMENT LETTER

To the Members of the Library Board
of the Community District Library
Corunna, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Community District Library, Michigan for the year ended June 30, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Library's budget should be monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted line items of the Library exceeded the amounts appropriated.

The Michigan Public Act 621 of 1978, as amended, provides that the Library shall not incur expenditures in excess of the amounts appropriated.

We suggest the Library monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

2. The Library should maintain supporting documentation for all deposits from the branch locations.

During our test of the library receipts, we noted the Library did not always retain supporting documentation for the Library branch location receipts remitted to Administration for deposit. In two (2) of the four (4) instances we tested, the Library receipts could not be traced to the branch count sheet.

We suggest the Library review receipt procedures for the receipting of branch location funds receipts to ensure that all supporting documentation is retained with the deposit records at the Library.

3. Decentralized cash handling should be analyzed and modified.

During our analysis of fraud risk assessment, we noted that funds collected at separate library locations were not kept in a secure location until deposited and several employees had access to areas where cash was kept.

We suggest the Library implement formal written procedures to assure funds that are collected at each decentralized location are maintained in a secure area until deposited.

4. The Board should amend the Library's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Library has not amended their investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Library's governmental funds. These resources are necessary for the delivery of the Library's services and programs. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40.

5. Annual book sale procedures should be evaluated.

During the course of our audit we determined that annually the Library in Corunna turns over books previously purchased with District Library funds to an organization who then sells the books and does not return all proceeds to the Library. They instead retain the proceeds and periodically expend those funds on library related costs.

We suggest this process be evaluated to determine if it is in the best interest of the District Library to continue this practice. The outside organization could continue to sell the books on behalf of the Library but all funds raised should be returned to the Library intact for the Library's sole use.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated August 31, 2005.

This report is intended solely for the use of management and the Board members of the Community District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 8, 2005